

# Identifying Credit Risk

## Ask, Analyze and Articulate for Remarkable Results

### Syllabus

#### Course Description

IDENTIFYING CREDIT RISK teaches bankers to ask the right questions during client interviews that uncover potential risk factors, quickly review trends and ratios to uncover potential risks to be explored further with clients, and to succinctly summarize their findings for underwriters.

This practical, hands-on approach to understanding the challenging and ever-changing world of small business credit swiftly builds banker comprehension and credibility with clients and underwriters.

#### Target Audience

This training is designed for bankers with a desire to increase their interviewing and analyzing skills when working with small business credit requests that are submitted to underwriters.

IDENTIFYING CREDIT RISK builds on a banker's existing knowledge of small business credit. Before attending this class, it is recommended that bankers have an understanding of:

- Financial statements
- Tax returns
- The underwriting process
- Basic business accounting
- Small business credit products

#### Course Length

IDENTIFYING CREDIT RISK is a one-day seminar, with a half-day workshop the following morning.

#### Pre-work

Pre-work consists of a self-study module on widely-used credit ratios. It also includes a brief overview of the income statement and balance sheet.

#### Learning Objectives

After successfully completing IDENTIFYING CREDIT RISK, bankers will be able to ask insightful questions and identify risks and trends during client interviews. They will also be able to quickly review financial statements and tax returns so they can ask additional questions that probe financial risks that are not obvious from the financials. They will learn to create concise, comprehensive and meaningful memos to accompany credit submissions.

Real-world case studies are used to demonstrate, and clarify, challenging financial and credit concepts. Profitability and performance ratios will be explained, as well as techniques to effectively communicate with the client and with underwriters.

In this course, bankers will refine their understanding of credit criteria. They will learn to isolate risk factors in business financials and to seek out pertinent application information. They will also explore:

#### Three Types of Risk Factors

- Non-financial – risks that cannot be identified from the financials
- Qualitative financial – risks that require clarification from the borrower
- Quantitative financial – risks that can be identified from financial analysis



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### Day One

#### The Initial Interview

- A case study to set a benchmark for existing initial credit interview skills
- Comparing the benchmark with non-financial and qualitative financial risk factors guidelines

#### Quick Financial Analysis

- Identifying trends with spreads of selected income and balance sheet accounts
- Using the Illuminating Eleven Ratios to identify potential risk factors
- How the Accounts Receivable Aging helps explore customer concentrations and collection policies
- Why a Schedule of Debt is necessary to calculate an accurate Debt Service Coverage Ratio
- How to identify Non-recurring Income and Expense Events
- The impact of seasonality and the absence of year-and adjustments on Interim Financials

#### Understanding Guarantors

- Using Personal Financial Statements to conduct asset reviews for secondary repayment sources
- Using Personal Financial Statements and personal tax returns to conduct guarantor expense reviews to identify requirements of guarantors for income from the business

#### Risk Factor Memo

- Identifying the most important risk factors that would not be obvious from the financials
- Writing a one-page summary of the most important risk factors



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